

Message Text

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FOR ASSISTANT SECRETARY ENDERS

FOLLOWING REPEAT SANTIAGO 2246 ACTION SECSTATE INFO BUENOS
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QUOTE

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SUBJ: GOC STREAMLINES ITS ECONOMIC TEAM

1. SUMMARY: RESPONDING DRAMATICALLY TO ITS DETERIORATING
ECONOMIC SITUATION, GOC LATE APRIL 11 ANNOUNCED THAT, AS
FIRST STEP IN CABINET REORGANIZATION, FINANCE MINISTER
JORGE CAUAS WOULD BECOME AN ECONOMIC "EUPER MINISTER"
AND MINISTER OF ECONOMIC COORDINATION RAUL SAEZ WOULD
BE GIVEN PLENIPOTENTIARY NEGOTIATING POWERS WITH RESPECT
TO INTERNATIONAL ECONOMIC AND FINANCIAL AFFAIRS. NEW
ECONOMIC PROGRAM DUE IN TEN DAYS. END SUMMARY.

2. DECREE DATED APRIL 10, DETAILING FOREGOING CHANGES,
STATES THEY ARE OUTGROWTH OF A NUMBER OF ECONOMIC DEVELOPMENTS,
MENTIONING IMPACT OF THE INTERNATIONAL ECONOMIC CRISIS,
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EFFECT OF DRASTIC FALL IN COPPER PRICES ON CHILEAN BALANCE

OF PAYMENTS AND GOVERNMENT INCOME, AND NEED TO INTENSIFY REDUCTION OF PUBLIC SECTOR EXPENDITURE AND TO MAKE OPTIMUM USE OF GOVERNMENT FUNDS, AND THE GENERAL NEED FOR GREATER CENTRALIZATION AND COORDINATION IN THE TASK OF ECONOMIC RECONSTRUCTION.

3. TO DEAL WITH FOREGOING REQUIREMENTS, CAUAS WAS GIVEN POWER TO ADMINISTER GOVERNMENT ECONOMIC ACTIVITY AT ALL LEVELS AND TO PROPOSE THE NECESSARY REGULATIONS AND INSTRUCTIONS, TO SUPERVISE IMPLEMENTATION, AND TO PENALIZE THOSE RESPONSIBLE FOR OBSTRUCTION AND INEFFICIENCY. THE FOLLOWING MINISTRIES (WHICH ARE HEAVY SPENDERS OF PUBLIC FUNDS) WERE SPECIFICALLY PUT UNDER CAUAS' CONTROL: FINANCE, ECONOMICS, AGRICULTURE, MINING, PUBLIC WORKS, TRANSPORT, HOUSING AND URBANISM, PUBLIC HEALTH, AND LABOR AND SOCIAL SECURITY. CAUAS' AUTHORITY IS ALSO EXTENDED TO THE GOVERNMENT'S PLANNING OFFICE (ODEPLAN) AND ITS DEVELOPMENT CORPORATION (CORFO). EXPECT FOR INDIVIDUALS OF MINISTERIAL RANK, CAUAS IS GIVEN AUTHORITY TO HIRE AND FIRE ALL OFFICIALS IN ALL THE FOREGOING AGENCIES.

4. SAEZ'S NEW FUNCTIONS ARE ALSO DESCRIBED, THOUGH MORE BRIEFLY, IN THE APRIL 10 DECREE LAW. LIKE CAUAS, SAEZ IS GIVEN AUTHORITY TO ISSUE DIRECTIVES TO THE AGENCIES UNDER THE FORMER'S CONTROL AS WELL AS PLENIPOTENTIARY POWERS IN INTERNATIONAL ECONOMIC RELATIONS. DECREE ALSO INDICATES SAEZ WILL GIVE HIGH-LEVEL ADVICE TO PRESIDENT PINOCHET IN ECONOMIC AND SOCIAL FIELDS.

5. CAUAS IS FURTHER DIRECTED TO PRESENT TO THE JUNTA, WITHIN TEN DAYS, AN ECONOMIC RECOVERY PROGRAM. PRESIDENT HAS SET STAGE FOR FAIRLY DRASTIC RESTRICTION ON GOVERNMENT DEFICIT SPENDING BY REFERRING IN RECENT SPEECHES TO COUNTRY'S ECONOMIC CRISIS IN TERMS OF AN EMERGENCY.

6. COMMENT: ALL THESE MOVES ARE OUTGROWTH OF GOC REALIZATION THAT COUNTRY'S ECONOMIC SITUATION HAS BEEN DETERIORATING SHARPLY IN RECENT WEEKS, AND THAT CONTINUATION OF PRESENT TRENDS IS BOUND TO PRODUCE VERY SERIOUS ECONOMIC AND POLITICAL EFFECTS UNLESS SOME NEW ELEMENTS CAN BE INJECTED INTO PICTURE. NUB OF PROBLEM LIMITED OFFICIAL USE

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IS SEEN AS NEED SUBSTANTIALLY TO REDUCE MASSIVE GOVERNMENT DEFICIT SPENDING AND CONSEQUENT HEADLONG INFLATION. WE BELIEVE ANY MIX OF MEASURE WHICH DOES SO WILL ENTAIL MORE AUSTERITY AND UNEMPLOYMENT. JUNTA IS THUS FACING REAL POLITICAL DIFFICULTIES, WHATEVER PATH IT FOLLOWS. CAUAS-SAEZ ECONOMIC TEAM HAS APPARENTLY CONVINCED JUNTA THAT IN LONG RUN RIGOROUS AUSTERITY WILL INVOLVE THE LEAST HARDSHIP AND THUS THE LOWEST POLITICAL COST. BUT CAUAS

WILL BE UNDER CONSTANT PRESSURE TO RELAX HARSH MEASURES HE
INTENDS TO DECREE. IF HE FAILS TO HOLD THE LINE AND TO
RETAIN PINOCHET'S CONFIDENCE, THE ENTIRE "SOCIAL MARKET
ECONOMY" CONCEPT IS LIKELY TO DISSAPPEAR.
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